



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., March 18, 2003. The following members were present:

Jody B. Olson  
Susan K. Simmons  
J. Kirk Sullivan  
Dennis L. Johnson

Trustee Pamela I. Ahrens was absent and excused to attend a funeral. Chairman Olson extended condolences to the family on behalf of the entire PERSI Board. The electronic projection of materials and documents discussed in the meeting was handled by Carol Peterson. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon  
Bruce Reeder  
Drew Black  
Brian McGrath  
Casey Maslonka  
Doug Bates  
Mike Boren  
Hayes Miller  
Susan Marshall

Mountain Pacific Investment Advisors  
Mountain Pacific Investment Advisors  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
Clearwater Advisors  
Clearwater Advisors  
Barings  
Barings

Barclay Douglas

Barings

Brent Nye	Boise School District
Charlie Brown	REAI
Matt Freeman	LBO
Matt Haertzen	Endowment Fund Investment Board
Doug Dorn	R.V. Kuhns
Cecile McMonigle	PERSI
Rhonda Yadon	PERSI
Richelle Sugiyama	PERSI
John R. Doner	PERSI

## OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Simmons and seconded by Trustee Johnson, the Board unanimously approved the minutes of the February 25, 2003, regular meeting of the Retirement Board as submitted.

Monthly Portfolio Update Mr. Maynard discussed his investment report dated March 17, 2003, which he had updated from the one previously furnished to the Board. There was a market rally on Monday when it became certain that war will be declared. In the report and in his discussion, Mr. Maynard noted the following:

Since the last Board meeting, the fund lost over 4%, then reclaimed it in Monday's rally. War jitters and general uncertainty have generally been driving the market, with increased expectations of war and reports of a softer economy and job market. Corporate profits continue to be elusive. The market also appears to be in the bottom range of its large roller-coaster movements it has exhibited over the past couple of years.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. All managers are also performing as expected vs. their respective benchmarks.

The TIPs account and Idaho Mortgages, with their government bond character, have the best absolute performance, while international and small cap equities have the worst. Zesiger and Genesis have the best relative performance for the fiscal year to date, while Brandes and Scudder have the worst.

The portfolio as a whole continues to exhibit its primarily defensive character that it developed late last year. This means that if the market turns around quickly, our relative performance will lag for a while.

Mr. Maynard's report stated the current value of the fund as of March 17, 2003 was \$5,863,537,627. The fiscal year-to-date return percentage is negative 7.3% and the month-to-date return was a negative 0.2%. Referencing a memo he had sent to the Board, Mr. Maynard said he will contact each Trustee during the month to discuss investment strategies going forward in this market environment.

The Private Equity presentation was delayed until April or May. Mr. Gianinni will meet with Mr. Maynard before then as we invest in another phase with a current private equity manager, Galen Limited Partners. He is also expected to bring three or four more opportunities to the investment committee for their consideration.

There was some discussion of how private equity return percentages are reported in Mr. Maynard's report. Time weighted returns create false images in terms of true performance of private equity allocations, so Mr. Maynard may drop this from his monthly report. The asset allocation is near our targets, so Mr. Maynard does not plan to rebalance at this time.

Barings Staff: Mr. Maynard introduced Barclay Douglas, Susan Marshall and Hayes Miller from Barings who were in Boise for a review with Mr. Maynard. In spite of retirements of senior employees, Barings has retained qualified staff in a turbulent time. Half of the company revenues are derived from financial services which includes trustee and custodial services. There was discussion of how different companies make their investment choices by sectors and others by geographical area. Barings combines both methods. If a technology company would compete in global markets, then both sector and geographic factors are analyzed. On the other hand, if a grocery chain has no international competition, then the factors considered are much different. The complex process includes scoring regions, global sectors and company management. There was further discussion of how global managers can invest compared to international and domestic managers.

Responding to a question from Trustee Johnson, Mr. Douglas said global investing is impacted by currency risk.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. There was considerable discussion about the war. While the geopolitical situation has a great influence on the markets, business investment spending is slow

because of corporate profit concerns. Most expect a continued rocky, volatile market environment. The managers feel that many investors are not positioned to take advantage of a market rally, but are remaining defensively positioned.

#### FISCAL:

Update and Expense Reports: Financial Officer James Monroe told the Board that our remote site in Coeur d'Alene was set up in February. To accomplish this, the staff in Coeur d'Alene relocated to a slightly larger office in the same building. We now have the capability to run our primary systems including all Galena functions remotely from Coeur d'Alene should we ever lose the Boise server system.

The RFP for the annual audit is still at Purchasing, expected to be out for bids very soon. Trustee Simmons reviewed the RFP and will be closely involved in the selection process.

Mr. Monroe also reviewed the Administrative and Portfolio expense reports for February. Responding to a question from Trustee Simmons, Mr. Monroe said we are working hard to hold expenses down and should have some cost savings at the fiscal year end.

#### LEGAL

Applewhite Motion for Reconsideration – Deputy Attorney General Brad Goodsell said that at last month's meeting the Board issued a Final Decision and Order, adopting the hearing officer's recommended decision denying Mr. Applewhite's application for disability retirement benefits. Mr. Applewhite timely filed a motion for reconsideration. After discussion of the process and information provided by the claimant, by motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board denied the motion for reconsideration. The member may seek judicial review, or if he has additional information, may choose to re-apply. The cost to reapply is \$525. In response to a question from Trustee Simmons, Mr. Goodsell confirmed that the relevant date for determining disability is the date of separation, not the date of application.

#### EXECUTIVE DIRECTOR

DC Plan Manager Selection Process: As a follow-up to Trustee Johnsons' concerns about the cost of having our DC Plan Consultant, Mercer, conduct a fund search costing \$10,000, Executive Director Winkle reviewed the background on the 401(k) plan development and three alternative approaches to a fund manager selection process. DC Plan manager, ING, has changed the name of their firm, their personnel, and their investment style. After discussion, by motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board chose Option 3 – In House as the approach to choosing this DC fund manager and

directed staff to bring the final selection candidates back to the Board. The Board will make the final selection.

Option 3 – In-House uses the following process:

- Form Investment Team at PERSI
- Use the current pool of potential funds
  - Morningstar or other universe
  - Compare and contrast candidates
  - Compare and contrast performance
  - Perform Fundamental analysis
- Establish detailed criteria
- Choose a fund from the pool of funds.

Chairman Olson said the Board does not normally make manager selections, but does retain veto power. Using this in-house approach makes sense now because spending \$7,500 for a new manager search does not seem fiduciarily responsible when measured against the total amount invested with ING. As the investment amount grows, the Board may have the DB consultant handle the research and make recommendations for any DC fund changes.

CIO Maynard told the Board that he and Ms. Sugiyama are assisting a foundation in a manager search which is similar to what is needed for PERSI's DC fund manager replacement. He said this is not something unique or difficult to do, as we have the data base.

Status Update: Mr. Winkle reviewed the summary of PERSI projects report that had previously been provided to the Board. The PERSI budget H0328 has been passed by the House and Senate and has been sent to the Governor. The actuarial review audit is progressing as is the member survey RFP. RFP's are nearly completed for a Process Review Project and Call Management/IVR study. He said we may need a T1 highspeed line for phones and fax. It will provide direct dialing to anyone without extensions. It is expected to improve our voicemail systems at a cost savings.

He told the Board he would speak to Bonner County officials in Sandpoint on March 19 at their regular meeting. They are considering joining PERSI.

Legislative Review: Each Friday, Mr. Winkle provides an update to the Trustees and interested parties on bills that could affect PERSI. He reviewed the current status of those.

FUTURE BOARD MEETINGS

After a brief discussion of items scheduled for discussion in June, Chairman Olson said the tentative June meeting of the Board would be cancelled.

Tuesday, April 22, 2003, 8:30 a.m., Boise - PERSI office

Tuesday, May 20, 2003, 8:30 a.m., Boise - PERSI office

~~Tuesday, June 17, 2003, 8:30 a.m., Boise - PERSI office~~ **(cancelled)**

Tuesday, July 22, 2003, 9:30 a.m., Pocatello, Idaho

Adjournment: There being no further business before the Board, by motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the meeting was adjourned at 10:25 a.m.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director